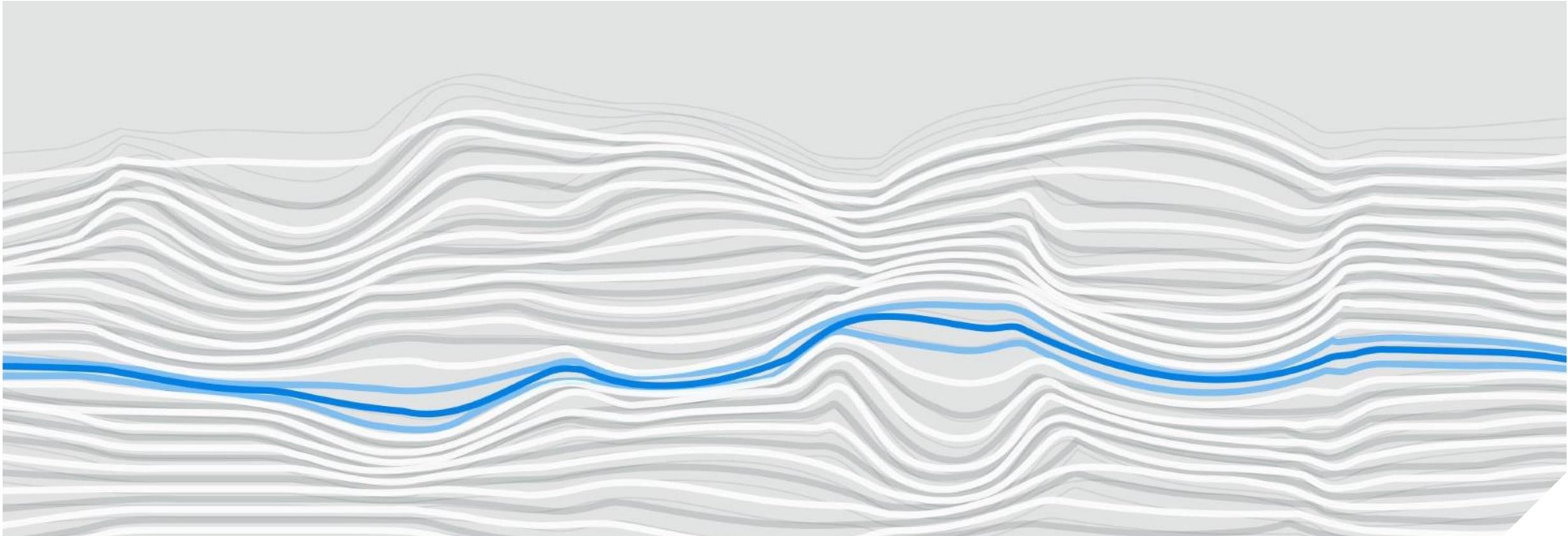


Arizona Health Care Cost Containment System



Preliminary FFY 2022 Hospital Assessment Model
February 12, 2021



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FFY 2022 Rebased Assessments

FFY 2022 Preliminary Rebased Assessments

Overview

- The federal fiscal year (FFY) 2022 hospital assessment model presented today is a **preliminary version** for discussion purposes only (does not reflect final AHCCCS policy decisions, and is subject to change)
- Preliminary modeled assessments have been “rebased” using hospital fiscal year ending **(FYE) 2019 inpatient discharges and outpatient net patient revenues**
 - *“Hospital Assessment Fund” (HAF) assessments*: finance the non-federal share of Medicaid coverage (“coverage payments” for both hospital and non-hospital services) for the Proposition 204 (Childless Adults) and Newly Eligible Adult Expansion populations (“Impacted Populations”)
 - *“Health Care Investment Fund” (HCIF) assessments*: finance the non-federal share of the HEALTHII payments, payment increases for physician and dental services, and program administration (consistent with HB 2668 requirements)
- AHCCCS is updating the assessment basis to FYE 2019 data for FFY 2022 and beyond (end date to be determined) in recognition of the volatility in FYE 2020 and 2021 hospital data due to the COVID-19 pandemic

FFY 2022 Preliminary Rebased Assessments (Cont'd)

Modeled Assessment Changes from FFY 2021 Model

Changes From FFY 2021 Model

- Rebased to **FYE 2019** discharges and outpatient net patient revenues (from FYE 2018 in FFY 2021)
- *HCIF*: **\$422M** target assessments (increase from approximately \$360M in FFY 2021) based on AHCCCS' projections
- Preliminary modeled inpatient acute discharge threshold (subject to lower assessment rate) of **22,800** (lowered from 24,000 in FFY 2021) to pass CMS B1/B2 test

Same As FFY 2021 Model

- Same assessment rate differentials (as a percentage of the full "base" assessment rate) across hospital peer groups
- *Baseline HAF*: Same **\$534M** target assessments as FFY 2021; AHCCCS FFY 2022 projections are in process and may change in future model versions
- Same inpatient and outpatient allocation:
 - *Baseline HAF*: 75% / 25% between inpatient and outpatient
 - *HCIF*: 25% / 75% between inpatient and outpatient

FFY 2022 Rebased Inpatient Assessments

Discharge basis

- FYE 2019 discharges used to model preliminary FFY 2022 inpatient assessments are based on amounts reported by hospitals under the same source hierarchy used for current assessments:

1

FYE 2019 Medicare Cost Reports:

Worksheet S-3 Part I, column 15, lines 14, 16 and 17
(extracted from the HCRIS database published by CMS or PDF copy)

2

FYE 2019 Uniform Accounting Reports (UAR):

UAR data published by the Arizona Department of Health Services (used only if HCRIS data is not available)

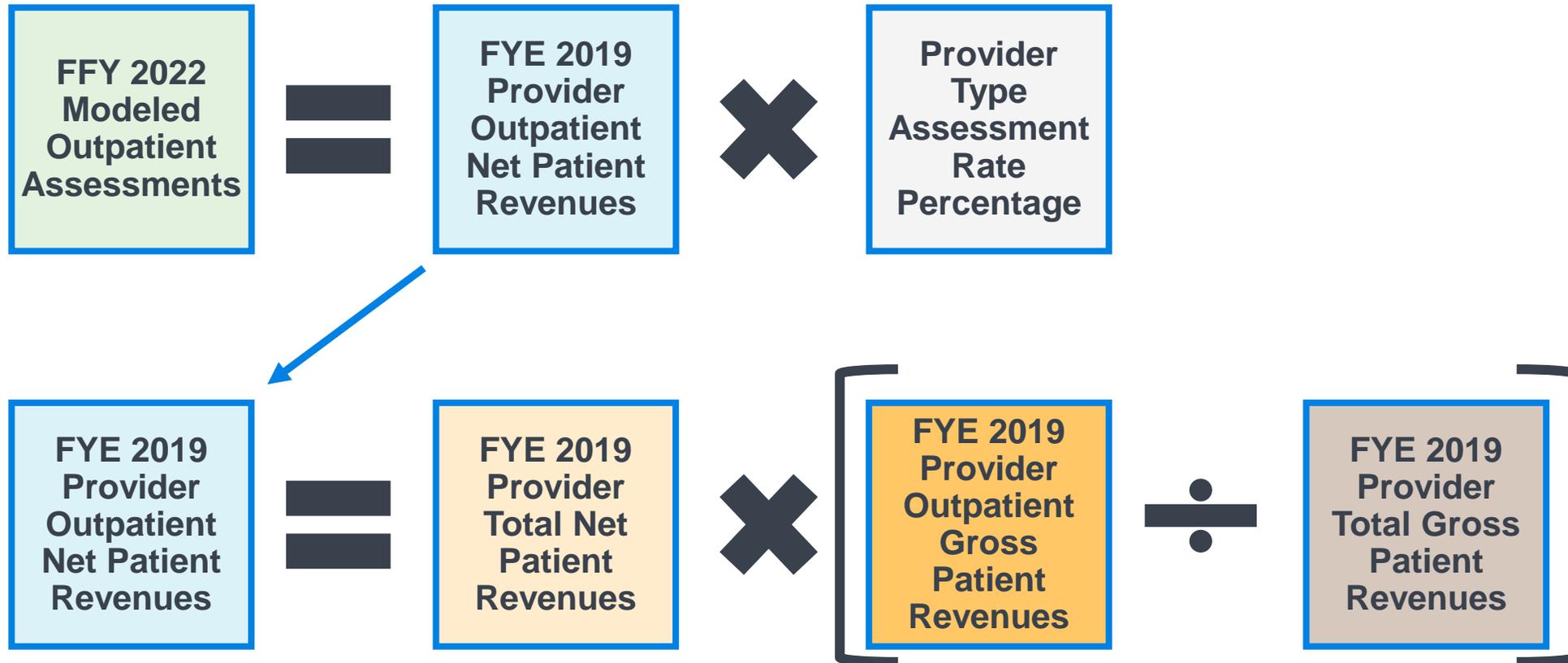
3

Provider Self-Reported Data:

Most recent available data collected directly from providers
(used only if HCRIS/UAR data are not available)

FFY 2022 Rebased Outpatient Assessments

Outpatient assessment calculation



FFY 2022 Rebased Outpatient Assessments (Cont'd)

Outpatient revenues basis

- The FYE 2019 outpatient revenues used to calculate FFY 2022 outpatient assessments are based on amounts reported by hospitals under the same source hierarchy used for current assessments:

| | |
|---|---|
| 1 | FYE 2019 Uniform Accounting Reports (UAR): UAR data published by the Arizona Department of Health Services (used if the UAR data reconciles to the audited financial statements) |
| 2 | FYE 2019 Audited Financial Statements (AFS): Audited financial statement data published by the Arizona Department of Health Services (used only if UAR data does not reconcile to the audited financial statements) |
| 3 | FYE 2019 Medicare Cost Reports: Worksheets G-2, columns 1 and 2, line 28 and G-2 column 1, line 3 (extracted from the HCRIS database published by CMS or PDF copy) |
| 4 | Provider Self-Reported Data: Most recent available data collected directly from providers (used only if UAR, AFS, or HCRIS data are not available) |

CMS Assessment Requirements

Tests demonstrating permissible health care-related assessments

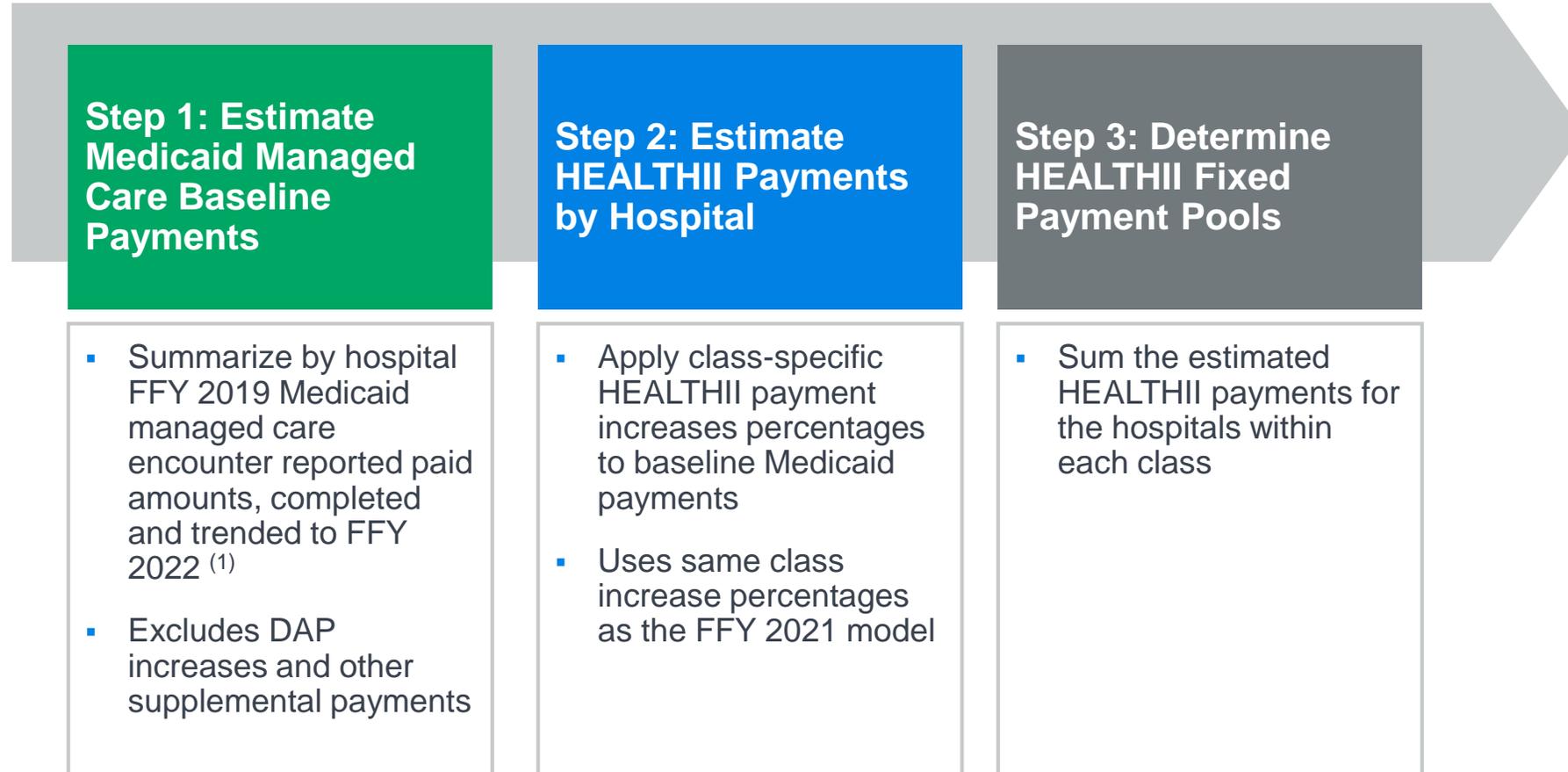
- **Assessments must be generally redistributive** – 42 CFR § 433.68(e):
 - Hospital assessments with tiered rates and rate exemptions must pass the “B1/B2” test to gain a waiver from CMS’ broad-based and uniform requirement
 - B1/B2 compares the relationship between each provider’s Medicaid assessable units and the provider’s share of total assessments assuming a) the assessment is broad based and uniform (B1), versus b) the proposed assessment structure (B2)
 - B1/B2 ratio must be greater than **1.0** to pass
- **Assessments must not violate hold harmless provisions** - 42 CFR § 433.68(f):
 - In the “Hold Harmless” test, assessments must be less than or equal to **6 percent** of the net patient revenue attributable to the permissible class of health care services
 - Under Arizona’s current assessment structure
 - Aggregate inpatient discharge-based assessments must not exceed **6 percent of inpatient net patient revenues**
 - Aggregate outpatient revenues-based assessments must not exceed **6 percent of outpatient net patient revenues**

HEALTHII Payment Methodology

FFY 2022 HEALTHII Payment Methodology

Overview

- Preliminary FFY 2022 HEALTHII payments were modeled using the following steps:



AHCCCS Proposed HEALTHII Payment Process

Based on the FFY 2021 approach approved by CMS

| Parameter | Note |
|---------------------------|---|
| Hospital Classes | <ul style="list-style-type: none"> The aggregate HEALTHII payment pool is allocated to six hospital class fixed payment pools Actual HEALTHII directed payments will be based on each hospitals' actual MCO utilization during the contract year |
| Interim Payments | <ul style="list-style-type: none"> Each hospital will have a quarterly interim payment based on modeled HEALTHII payments divided by four |
| Payment Reconciliation | <ul style="list-style-type: none"> After the completion of the contract year and when there is sufficient claim runout, interim payments will be reconciled based on actual contract year utilization Class final HEALTHII payment increase percentage = Class HEALTHII payment pool / Class FFY 2022 managed care encounter paid amounts (with DAP removed) Final hospital HEALTHII payment = Class final HEALTHII payment increase percentage * FFY 2022 managed care encounter paid amounts (with DAP removed) |
| Reconciliation Adjustment | <ul style="list-style-type: none"> Hospital payment reconciliation adjustment = Final HEALTHII payment – Interim HEALTHII payment AHCCCS will direct hospital payment reconciliation adjustments as either increases to or offsets against interim HEALTHII payments in a future quarter FFY 2021 HEALTHII payment reconciliation will occur no later than Q4 FFY 2023 |

AHCCCS Proposed HEALTHII Payment Process (Cont'd)

Quarterly Payment Schedule

FFY 2021 Quarterly HEALTHII Payments

| | |
|---------------------|--|
| Quarter 1 Year 1 | Interim Payment for Year 1, Quarter 1 (10/1/2020 – 12/31/2020) |
| Quarter 2 Year 1 | Interim Payment for Year 1, Quarter 2 (1/1/2021 – 3/30/2021) |
| Quarter 3 Year 1 | Interim Payment for Year 1, Quarter 3 (4/1/2021 – 6/30/2021) |
| Quarter 4 Year 1 | Interim Payment for Year 1, Quarter 4 (7/1/2021 – 9/30/2021) |



FFY 2023 Quarterly HEALTHII Payments

| | |
|---------------------|--|
| Quarter 1 Year 3 | Interim Payment for Year 3, Quarter 1 (10/1/2022 – 12/31/2022) |
| Quarter 2 Year 3 | Interim Payment for Year 3, Quarter 2 (1/1/2023 – 3/30/2023) |
| Quarter 3 Year 3 | Interim Payment for Year 3, Quarter 3 (4/1/2023 – 6/30/2023) |
| Quarter 4 Year 3 | Interim Payment for Year 3, Quarter 4 (7/1/2023 – 9/30/2023) |

The FFY 2021 HEALTHII payment reconciliation will be directed as an adjustment to a FFY 2023 quarterly interim HEALTHII payment (no later than Q4)

Preliminary Model Results

Preliminary Modeled Assessment Rates

Combined Baseline HAF and HCIF Assessment Rates

| Hospital Assessment Peer Group | Inpatient | | Outpatient | |
|--|----------------------------|----------------------------------|----------------------------|----------------------------------|
| | Percent of Base Assessment | Modeled FFY 2022 Assessment Rate | Percent of Base Assessment | Modeled FFY 2022 Assessment Rate |
| Rates Applicable to Each Hospital Type: | | | | |
| Critical Access Hospitals | 100% | \$ 947.00 | 25% | 1.9232% |
| Freestanding Children's Hospitals | 20% | \$ 189.75 | 20% | 1.5386% |
| Freestanding Rehabilitation Hospitals | 0% | \$ 0.00 | 0% | 0.0000% |
| High Medicare Utilization Hospital | 0% | \$ 0.00 | 0% | 0.0000% |
| High Medicare/Out-of-State Patient Utilization Hospital | 0% | \$ 0.00 | 0% | 0.0000% |
| Large Psychiatric Hospitals | 25% | \$ 237.00 | 25% | 1.9232% |
| LTAC Hospitals | 25% | \$ 237.00 | 25% | 1.9232% |
| Medium Pediatric Intensive General Acute Hospitals | 90% | \$ 852.50 | 75% | 5.7696% |
| Non-CAH Rural Acute Hospitals | 100% | \$ 947.00 | 60% | 4.6158% |
| Pediatric-Intensive General Acute Hospitals | 80% | \$ 757.75 | 65% | 5.0003% |
| Short Term Specialty Hospitals | 0% | \$ 0.00 | 0% | 0.0000% |
| Small Psychiatric Hospitals and AZ State Hospital | 0% | \$ 0.00 | 0% | 0.0000% |
| Urban Acute Hospitals | 100% | \$ 947.00 | 100% | 7.6929% |
| Rates Applicable to All Non-Exempted Hospital Types: | | | | |
| Rate Applied to Non-Exempted Psychiatric Sub-Provider Units | 25% | \$ 237.00 | N/A | N/A |
| Rate Applied to Non-Exempted Rehabilitation Sub-Provider Units | 0% | \$ 0.00 | N/A | N/A |
| Rate Applied to Units Above Threshold ⁽¹⁾ | 10% | \$ 95.00 | N/A | N/A |

Note: (1) The modeled inpatient assessment unit threshold is 22,800, and there is no modeled outpatient assessment unit threshold. The inpatient threshold is not applicable to inpatient discharges for Psychiatric Sub-Providers, Rehabilitation Sub-Providers.

Preliminary Modeled HEALTHII Payment Impact

Combined Inpatient and Outpatient (In Millions)

| HEALTHII Reimbursement Class | Class HEALTHII Payment Increase Percentage | Modeled HEALTHII Class Fixed Payment Pool | Modeled HCIF Assessments | Estimated Net Revenue Gain / (Loss) From Assessments ⁽¹⁾ |
|--------------------------------------|--|---|--------------------------|---|
| A | B | C | D | E = C - D |
| Freestanding Children's Provider | 16.18% | \$ 53.1 | \$ 5.5 | \$ 47.6 |
| Private Urban Acute Hospital | 65.67% | \$ 947.0 | \$ 331.1 | \$ 615.9 |
| Public Acute Hospital | 15.77% | \$ 20.1 | \$ 10.6 | \$ 9.5 |
| Rural Hospital | 68.76% | \$ 184.6 | \$ 55.0 | \$ 129.5 |
| Rural Reservation-Adjacent Hospitals | 91.83% | \$ 68.3 | \$ 17.4 | \$ 50.9 |
| Specialty Hospital | 14.19% | \$ 29.2 | \$ 2.6 | \$ 26.6 |
| Total | | \$ 1,302.2 | \$ 422.1 | \$ 880.1 |

Preliminary Modeled Impact from Total Assessments

Combined Coverage Payments and HEALTHII Payments (Inpatient and Outpatient in Millions)

| Hospital Assessment Peer Group | Total Modeled FFY 2022 HAF Assessments | Total Modeled FFY 2022 HCIF Assessments | Total Modeled FFY 2022 Coverage Payments | Total Modeled FFY 2022 HEALTHII Payments | Estimated Hospital Net Revenue Gain / (Loss) from Total Assessments ⁽¹⁾ | Number of Hospitals with Estimated Gain | Number of Hospitals with Estimated \$0 Gain | Number of Hospitals with Estimated Loss |
|---|--|---|--|--|--|---|---|---|
| CAH | \$ 8.7 | \$ 6.2 | \$ 40.5 | \$ 44.4 | \$ 70.0 | 12 | 0 | 0 |
| Freestanding Children's Hospitals | \$ 4.2 | \$ 5.5 | \$ 7.6 | \$ 53.1 | \$ 51.0 | 1 | 0 | 0 |
| Freestanding Rehabilitation Hospitals | \$ 0.0 | \$ 0.0 | \$ 12.6 | \$ 1.8 | \$ 14.4 | 12 | 0 | 0 |
| High Medicare Utilization Hospital | \$ 0.0 | \$ 0.0 | \$ 0.7 | \$ 0.4 | \$ 1.2 | 1 | 0 | 0 |
| High Medicare/Out-of-State Patient Utilization Hospital | \$ 0.0 | \$ 0.0 | \$ 8.0 | \$ 0.7 | \$ 8.7 | 1 | 0 | 0 |
| Large Psychiatric Hospitals | \$ 8.4 | \$ 2.5 | \$ 124.1 | \$ 21.4 | \$ 134.7 | 10 | 0 | 0 |
| LTAC Hospitals | \$ 0.4 | \$ 0.1 | \$ 7.9 | \$ 1.3 | \$ 8.7 | 6 | 0 | 0 |
| Medium Pediatric Intensive General Acute Hospitals | \$ 102.5 | \$ 80.8 | \$ 360.3 | \$ 303.6 | \$ 480.6 | 6 | 0 | 0 |
| Non-CAH Rural Acute Hospitals | \$ 69.3 | \$ 51.5 | \$ 173.1 | \$ 159.5 | \$ 211.8 | 12 | 0 | 0 |
| Pediatric-Intensive General Acute Hospitals | \$ 18.7 | \$ 13.5 | \$ 74.6 | \$ 93.8 | \$ 136.2 | 1 | 0 | 0 |
| Short Term Specialty Hospitals | \$ 0.0 | \$ 0.0 | \$ 8.7 | \$ 1.3 | \$ 10.0 | 5 | 3 | 0 |
| Small Psychiatric Hospitals and AZ State Hospital | \$ 0.0 | \$ 0.0 | \$ 17.1 | \$ 3.4 | \$ 20.5 | 9 | 1 | 0 |
| Urban Acute Hospitals | \$ 321.4 | \$ 262.1 | \$ 714.9 | \$ 617.5 | \$ 748.9 | 25 | 0 | 4 |
| Total Border Hospitals | \$ 0.0 | \$ 0.0 | \$ 31.7 | \$ 0.0 | \$ 31.7 | 0 | 0 | 0 |
| Total Out of State Hospitals | \$ 0.0 | \$ 0.0 | \$ 2.2 | \$ 0.0 | \$ 2.2 | 0 | 0 | 0 |
| Total | \$ 533.5 | \$ 422.1 | \$ 1,584.1 | \$ 1,302.2 | \$ 1,930.7 | 101 | 4 | 4 |

Preliminary Model Feedback

Model Parameters and Hospital Reported Amounts

- AHCCCS is soliciting feedback from the hospital community on the preliminary FFY 2022 HEALTHII assessment model parameters for consideration
 - Please email comments related to model parameters to AHCCCS at HospitalAssessmentProject@azahcccs.gov by **Friday, March 5, 2021**
- Please review and validate your hospital's FYE 2019 discharges and revenues amounts shown in the Milliman report "*Preliminary Federal Fiscal Year 2022 Hospital Assessment Model*" Appendix A, dated February 10, 2021
- Please contact AHCCCS if there are any issues or questions
 - If there is an issue in the reported discharges in the FYE 2019 Medicare cost report, AHCCCS requires the hospital to re-submit its cost report and provide a copy to AHCCCS in order to change the hospital's assessed discharges
 - Please email comments related to **model discharges and revenues amounts**, including notice of planned FYE 2019 Medicare cost report changes, to AHCCCS at HospitalAssessmentProject@azahcccs.gov by **Friday, March 5, 2021**

Next Modeling Steps

- Collect stakeholder feedback for consideration
- Update model baseline experience used to estimate HEALTHII payments, from FFY 2019 data to CY 2019 data, to align with AHCCCS' FFY 2022 Medicaid capitation rate-setting process
- Update other preliminary assessment model inputs and model parameters as needed
- Develop HEALTHII payment benchmarking analysis, comparing modeled directed payments to estimates of payments under Medicare and commercial at the provider class level (required under CMS' new Preprint guidance for federal approval of 438.6(c) state directed payment arrangements)
- Share results with hospital stakeholder group

Limitations

The services provided for this project were performed under the signed Consulting Services Agreement between Milliman and Knowledge Services (KS) dated December 21, 2020.

The information contained in this presentation has been prepared for the Arizona Health Care Cost Containment System (AHCCCS). We understand this presentation will be shared with AHCCCS' hospital stakeholder work group on February 12, 2021. These results may not be distributed to any other party without the prior consent of Milliman. To the extent that the information contained in this correspondence is provided to any approved third parties, the correspondence should be distributed in its entirety. Any user of the data must possess a certain level of expertise in health care modeling that will allow appropriate use of the data presented.

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The preliminary model described in this presentation relies on data and information provided by CMS, AHCCCS, Arizona Department of Health Services, and hospitals, which we have accepted without audit. To the extent that the data and information provided is not accurate, or is not complete, the values provided in this report may likewise be inaccurate or incomplete.

*Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience. **Modeled hospital specific HEALTHII payments are estimates subject to change based on actual contracted MCO utilization during the 2022 contract year.***

This work is not complete. Final results and recommendations may vary significantly from this draft document based on additional findings and information gathering.

This presentation is for discussion purposes only, and should not be relied upon without benefit of the discussion that accompanied it or without review of the accompanying February 10, 2021 Milliman report "Preliminary Federal Fiscal Year 2022 Hospital Assessment Model".



Thank you

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